11/21/86 R9050-3

TAX FOUNDATION'S VOL. 29, NO. 8 OCTOBER/NOVEMBER 1985

TAX·FEATURES

Uncle Sam's IOU Tops $2 Trillion— $8,600 for Each U.S. Man, Woman, Child

The Federal deficit may drop—how much is uncertain—according to most projections coming out of Washington. But Tax Foundation analysts shows no prospect for reducing either the Federal debt or the interest payments on that fiscal millstone.

The legal debt ceiling of $1,824 trillion will be breached by the end of October 1985. To pay the government's bills, Congress will have to raise the debt limit above the $2 trillion level for the first time in history. This milestone comes at the close of a fiscal year that witnessed the largest deficit ever recorded—$211 billion. Fiscal 1985 also saw the most costly annual interest bill in U.S. history—nearly $130 billion—according to economists at the Tax Foundation.

The legal debt ceiling has a history that is almost boring in its relentless upward climb. From 1947 through February 1958 the statutory debt limitation remained at $275 billion. Since then Congress has raised the limit nearly every year. Taxes debt of the U.S. government passed the $500 billion mark in 1975, and doubled, to top the $1 trillion level for the first time, in 1982. The debt will double again by 1986.

For every man, woman, and child in the nation, the debt will reach $8,600 by the end of 1986, an increase of nearly $900 in a single year, according to analysts at the Washington-based tax watchdog organization.

The debt grows because the American people are receiving government benefits—but passing on the costs of these goodies to future generations. More importantly, the debt is growing because interest charges on the debt are growing and the principal is not being repaid. In other words, more and more of the debt is caused by debt. And the process seems locked in an inescapable spiral.

Net interest payments exceeded $100 billion annually in 1984 and 1985. That equals more than 60 percent of the annual deficits. In fiscal year 1986, about 80 percent of what the government borrows will go to pay interest on previously accumulated debt. Interest costs in 1986 are estimated at $138 billion. They will account for 14 percent of total budget outlays—up from 9 percent six years ago.

Since 1980 interest has been the fastest growing segment of the Federal budget. Net interest payments have shot up at an average annual rate of nearly 20 percent. (Net interest represents interest paid by the government less interest received on debt held by Federal agencies and accounts.) In comparison, non-interest outlays have risen by less than 9 percent a year and receipts at slightly over 7 percent annually. The debt itself has grown at a 15 percent annual rate.

(Continued on page 4)

THIS ISSUE:

PAGE 1
Federal Debt

PAGE 2
Tax Index

PAGE 3
Social Welfare

INSERT
State/Local Taxes; High Income Tax; VAT

Mark Your Calendar

The 37th Annual Conference of the Tax Foundation will take place **Wednesday, December 4, 1985**, at the **Waldorf-Astoria Hotel** in New York City. The day-long conference, titled "The Tax Agenda—Level Field or Minefield?", will feature speakers from the business community and government officials. Sessions will include discussion of business tax policy, the business transfer tax, and the budget and trade deficits.

The 48th Annual Dinner and presentation of Tax Foundation's 1985 Distinguished Public Service Award will follow that evening.

Complete details and reservation forms for the 1985 Conference and Dinner are already in the mail.

Federal Deficits, Debt Outstanding, and Related Measures

Selected Fiscal Years 1975-1986[a]
(Billions)

Year	Receipts	Outlays[b]	Deficit[b]	Gross Federal debt[c]	Net interest
1975	279.1	332.2	53.2	544.1	23.2
1976	298.1	371.8	73.7	631.9	26.7
1977	355.6	409.2	53.6	709.1	29.9
1978	399.7	458.7	59.2	780.4	35.4
1979	463.3	503.5	40.2	833.8	42.6
1980	517.1	590.9	73.8	914.3	52.5
1981	599.3	678.2	78.9	1,003.9	68.7
1982	617.8	745.7	127.9	1,147.0	85.0
1983	600.6	808.4	207.8	1,381.9	89.8
1984	666.5	851.8	185.4	1,576.7	111.1
1985	730.0	947.3	211.3	1,844.3	129.6
1986	779.8	957.7	177.8	2,076.9	138.1

[a] Data for 1985 and 1986 are based on current-services estimates presented by the Administration in August 1985.
[b] Includes activities of off-budget agencies, to which receipts are attributable to these transactions.
[c] End of fiscal year.
Source: Office of Management and Budget, Department of Commerce, and Tax Foundation computations.

Taxes Grow 7.5% as Tax Index Surges to 513.9; Federal and State-Local Levies Outpace GNP

The Tax Index rose to 513.9 (1967 = 100) in the first half of 1985, as the nation's tax bill climbed to more than five times the level recorded in the base year 1967, according to Tax Foundation economists. The Federal Index stood at 496.0, and the State-Local Index at 551.1.

The Index reflected tax receipts of Federal, state, and local governments totaling $1,127 trillion, an increase of $79 billion or 7.5 percent, as compared to the first half of 1984. Federal taxes were up by 7.8 percent over the year and state-local taxes by 7.0 percent.

At the same time, gross national product (GNP) for the first half of this year came to an Index level of 479.3 (1967 = 100), lagging behind tax growth with a 6.5 percent increase from a year before.

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing current measure of tax trends on a basis comparable to indexes for other segments of the economy.

Among the different taxes represented in the overall Index, the highest-growth component since the base year is social insurance taxes, with an index of 773.9 for the first half of 1985. Personal income taxes follow, at an index of 567.6; then indirect business taxes at 440.4.

Corporate profits show a high cumulative growth Index of 725.3 at state and local levels for the first half of 1985, whereas the Federal Index for this revenue source was on the low side—223.1, slightly more than twice the base year amount. State-local corporate income taxes in 1985 to date have been equal to nearly 27 percent of their Federal counterpart, up from 8 percent in the 1967 base year.

Personal income taxes at state and local levels have also risen much more rapidly than Federal income taxes. At an index of 1,076.0 in the first half of 1985, the state-local personal income tax is the first index component to show a ten-fold growth rate. The Federal income tax Index was 517.6 for the first half of the year. The differential between Index levels for federal and state-local income taxes is also reflected in the rise of subnational income taxes from 10 percent of Federal taxes in 1967 to 53 percent in 1985.

Social insurance contributions have risen most rapidly at the Federal level, reaching an Index of 791.6; but the state-local Index for social insurance taxes also has been a fast-growing component, coming to 679.2 for the first half of 1985.

Indirect business taxes—which include property taxes on both business and residential properties, as well as sales, excises, and customs levies—have risen more rapidly at state and local levels (478.3) than at the Federal level (310.4).

While all types of taxes combined were 7.5 percent higher in the first half of 1985 than a year earlier, individual income taxes were up by 10.5 percent; social insurance taxes by 10.2 percent; indirect business taxes, 7.0 percent; and miscellaneous taxes, 5.6 percent. Corporate profits taxes were lower than a year ago, at 9.9 percent.

Between first and second quarters this year, the Index actually dropped by 9.7 percent (from 521.7 to 506.1), reflecting an extraordinary $44.6 billion (annual rate) drop in Federal personal income tax collections. This unusual twist owes to the slowdown that IRS experienced in getting tax refunds mailed to the many filers due them this year. Over $20 billion in refunds that ordinarily would have offset first-quarter receipts was chalked up against second quarter receipts instead. This temporary drop, however, has no significance as an economic signal, to smooth over the changes due to IRS refunding practices, Tax Foundation analysts have combined the first two quarters into a single tax index for the first half of 1985.

Tax Index by Level of Government and Type of Tax, and Major Economic Indices
Selected Periods 1960-1985[a]
Index Numbers, 1967 = 100

Type of Tax	1960	1970	1980	1983	1984	1985[b]
All governments						
All taxes	61.4	133.2	361.2	441.1	484.6	513.9
Personal income	56.0	141.5	413.4	491.9	527.3	567.6
Corporate profits	69.8	105.2	263.0	233.8	276.6	263.7
Indirect business taxes[c]	63.4	133.7	294.9	396.4	419.4	440.4
Social insurance contributions	48.7	151.0	474.4	651.3	712.7	773.9
All other[d]	61.4	123.1	228.0	240.4	249.3	269.5
Federal government						
All taxes	64.0	127.5	351.0	424.2	460.1	496.0
Personal income	60.0	140.4	389.6	448.8	479.8	517.6
Corporate profits	71.4	102.0	214.2	190.1	213.8	223.1
Indirect business taxes[c]	36.0	119.6	223.2	296.8	314.1	310.4
Social insurance contributions	48.7	154.3	479.7	644.3	706.3	791.6
All other[d]	71.2	135.3	211.4	197.5	197.5	210.4
State and local governments						
All taxes[e]	57.0	142.1	369.9	476.4	524.1	551.1
Personal income	49.3	142.6	437.3	535.2	575.1	616.0
Corporate profits	67.0	111.3	309.3	280.4	341.1	325.1
Indirect business taxes[c]	89.4	150.7	371.8	512.5	538.8	478.3
Social insurance contributions	48.6	136.9	447.1	666.1	720.1	679.2
All other[d]	56.2	126.0	240.6	284.9	300.1	317.6
Exhibit:						
GNP (current prices)	60.1	134.1	356.1	411.8	448.1	479.4
GNP (constant prices)	83.0	103.7	114.8	113.1	119.1	124.8
Implicit price deflator for GNP	80.0	133.1	277.7	323.4	338.0	290.7

[a] Most taxes are shown on an accrual basis.
[b] First half at seasonally adjusted annual rate.
[c] Includes sales, excise, and customs levies and all property taxes (including those on business and residential property).
[d] Estate and gift taxes and miscellaneous taxes.
[e] State and local property taxes.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

Tax Features

Tax Features is published by the Tax Foundation, Incorporated. Original material is not copyrighted and may be reproduced. Please credit Tax Foundation, Incorporated.

Chairman of the Board — W. Bruce Thomas
President — Robert C. Brown
Vice President—Research — Elsa M. Walters
Editor — William J. Wilson
Publications Manager — Sarah G. Wise

Tax Foundation, Incorporated
One Thomas Circle, N.W., Suite 820
Washington, D.C. 20005
(202) 822-9050

TAX FOUNDATION, INCORPORATED
ONE THOMAS CIRCLE, N.W., SUITE 500

WASHINGTON, DC 20005
TELEPHONE (202) 822-9050

FEDERAL TAX POLICY MEMO

Editor: Edward A. Sprague, Vice President–Tax and Economic Affairs

OCTOBER 1985

Battle Over State/Local Tax Deductions

There is growing opposition to the Reagan tax reform proposal to eliminate the personal deduction for state/local taxes. This proposal is particularly important to the overall reform plan because it would provide over 40 percent of all the individual base-broadening measures (in dollar volume) or $40 to $46 billion by fiscal 1990. If the provision is dropped or severely curtailed, the opportunity for reducing marginal rates obviously would be restricted, too, or some large new alternative revenue source would have to be developed. Needless to say, the latter would be extremely difficult.

While the Administration maintained a no-compromise position on removing the state/local tax deduction through the Spring and after releasing the Reagan I program, there is lots of talk in Congress of accommodating the critics of the proposal. Suggestions range from limiting the deduction by a dollar cap to retaining it for some state/local taxes and not others. Unfortunately, most of the compromises being talked about do not make for sound tax policy.

In this regard it is important to note the traditional justification for deductibility—that state/local taxes reduce income involuntarily and thus reduce ability to pay. This rationale was part of the original income tax structure going back to the Civil War. The deduction as a subsidy to taxpayers in high-tax states was a non-argument.

Over the years certain tax reformers have attacked the state/local tax deduction for eroding the progression of the income tax—it being of most value to upper-income taxpayers. Followers of the Haig-Simons school claim that state/local taxes are really payments for "consumer services"—schools, fire and police protection, local roads, etc.—of benefit to the taxpayer and, therefore, should not be excluded from a comprehensive income tax base. If so, however, these are "services" over which individual taxpayers have very limited choice. ***Unless you happen to live at a marina in a state with no income tax, with a food/drug exemption from sales tax and acquire your other goods from an out-of-state mail-order house, you are going to pay state/local taxes whether or not you enjoy their "services."***

In the Treasury I reform plan of November 1984, the theme of state/local taxes as consumer payments was picked up again, but in a most unconvincing manner. Since then, justifying the elimination of the deduction has relied almost totally on the charge that the present deduction subsidizes taxpayers in high-tax state/localities relative to low tax areas. In this writer's opinion, at least, nobody has come forth to date with a compelling case that state/local tax payments—which can amount to a very significant portion of a family budget—do not reduce ability to pay Federal income tax. One can argue, of course, that the objective of lower marginal rates is overriding—that the deduction should be foregone because of the economic and other benefits of rate reduction. But particularly if rate reduction is to be compromised by retaining some deductibility of state/local taxes, it behooves the policymakers to pay close attention to the method chosen.

Threat of Double Taxation

One recurring proposal is to change the state/local deduction into a credit which could be set at a level low enough to minimize revenue loss and at the same time continue some benefit for middle-income taxpayers. A simple dollar cap on the amount of deduction that could be taken would serve the same objective. But in either case the result would be a haphazard increase in the progression of the tax structure. And depending on the extent of the credit or remaining deduction, there would be less opportunity for offsetting rate relief.

Question must be raised as to whether this is an appropriate way to change the distribution of tax burdens. ***It is not at all unusual for an upper-income resident in New York State to have state/local tax liabilities in excess of $10,000 annually. Perhaps one needn't feel too sorry about the circumstances of such taxpayers. But the fact remains that while they may have a degree of control over the level of their property and sales taxes, they have virtually no choice with respect to New York's hefty personal income tax—even heftier, of course, for New York City residents.*** To indicate to such taxpayers, as did the November 1984 Treasury report, that they could exercise a lower tax choice by moving to another state is hardly a viable option for most individuals tied to jobs and other circumstances. Their net income available for other purposes certainly is reduced by such payments, and eliminating or severely curtailing the Federal deduction could well be construed as a form of double taxation. From a policy viewpoint, to impose a *selective* double taxation on top of this, according to income, makes matters worse. The greater the "contribution" to state/local public services the higher the Federal tax penalty would be.

Congress, of course, could choose another route and allow deductibility of state/local taxes only *above* a certain level—say one or two percent of gross income as proposed initially for charitable contributions. This would answer in part the above objection but then would accentuate the difference in treatment between high-tax and low-tax states. It would give relatively more advantage to taxpayers in high-tax states—the very problem that the Administration program seeks to correct.

Yet another tack Congress could take is to retain deductibility for income and property taxes while eliminating it for sales taxes as was proposed in the draft program of the Carter Administration in 1977. Or perhaps retain deductibility of

Material in ***Federal Tax Policy Memo*** *may be reproduced freely. Credit to Tax Foundation, Incorporated, would be appreciated.*

income taxes only. This type of program would have less impact on the distribution of tax burdens and would minimize the double tax question. It also would be a powerful club over state/local tax policy and initiative. It would direct the states away from sales taxes by Federal edict. And that doesn't seem to accord with either the new or old Federalism.

A Straight Percentage Best

Probably the purest form of compromise that Congress could make in this area would be to allow a straight percentage of the existing deduction regardless of income or type of tax. This would be the least disturbing of tax policy measures. It would have a neutral effect on tax burden distribution, at least on those continuing to itemize. The percentage could be set at whatever level Congress determines to reconcile the base-broadening revenue need with the political objections of state/localities. But just because it seems logical on this score, don't bet on it or any other particular measure that could evolve from this Fall's turbulent markup of tax reform legislation.

* * * * * * * *

High Income Tax Burdens—II

The Tax Foundation's June/July *Tax Features* carried an article on high-income tax burdens indicating the very small number and proportion of those with incomes over $200,000 who managed to avoid any Federal income tax liability. The article was based on the latest available data from the IRS Statistics of Income (SOI) covering the calendar year 1982.

In the meantime, at the request of Representative Jake Pickle (D-TX), Chairman of the House Ways and Means Oversight Subcommittee, the Treasury Department has released a special study of 1983 high-income tax returns (over $250,000 in income) using a different definition of income and highlighting the role of partnership losses in reducing tax liability. The headline in Congressman Pickle's news story on the study read: "30,000 wealthy Americans paid little or no tax."

That makes quite a contrast with the only 298 individuals with expanded income[1] of $250,000 or more reported to pay no Federal income tax in 1982, according to the earlier data. Congressman Pickle was quick to point out, of course, how the latest data should be taken into account in the current tax reform consideration and especially called for a "strong and effective minimum tax provision that would require all wealthy taxpayers to pay a certain amount of tax." ***Tax reform should take aim at provisions which permit minimal effective tax rates among the wealthy. But a "strong" minimum tax may not be the answer.***

Stretching the Figures

There is something a little suspect about creating a new statistical measure in the midst of a highly charged political debate over the matters being measured. To prove your point you order up a new batch of figures. But apart from that, there are a couple of obvious explanations for the much higher numbers on tax avoidance.

First, including those who pay relatively minor amounts of tax—less than 5 percent of income—along with non payers in the same pot greatly expands the principal target group. Secondly, the definition of income used—total positive income (TPI)—is far, far broader than either adjusted gross income or expanded income. Basically, TPI is gross income for tax returns before losses. It includes positive income items from 1040 returns which, in the Treasury's words, "essentially equal the sum of (1) wages and salaries, (2) interest, (3) dividends, and (4) income from profitable business and investments." For capital gains it counts long-term and short-term gains before the 60 percent exclusion and *before* any losses. It includes rents, royalties and partnership income with gain excluding net losses.

The rationale for TPI is to account for the above-the-line offsets to income—especially partnership losses but also IRA and Keogh contributions, etc.—that reduce adjusted gross income and expanded income measures but still represent, in the Treasury's view, "economic" income. Treasury admits that TPI will not reflect some real economic losses but claims that most of the reported current losses are a result of partnership investment activities which typically show accounting losses for tax purposes but not actual economic loss.

The case for not reflecting capital gains losses seems much weaker. In this area the chances of real economic loss are certainly greater. High-income returns very often involve extensive capital gains transactions and the extent to which real capital losses are not reflected in TPI obviously overstate income and make the effective rates of tax look smaller. ***Some changes in the coverage of TPI could make a significant difference in the reported rate of tax, just as relatively small changes in the definition of "tax expenditures" can dramatically alter both the level and distribution of the tax expenditure budget.***

If we accept Treasury's TPI as a reasonable measure of income, there are a considerable number of high-income returns over $250,000 paying a lesser effective rate of tax than the average for upper-middle-income returns. But the *overall* pattern of tax burden distribution apparently would not change significantly from that based on adjusted gross income or expanded income. The effective rate of tax for the high-income group as a whole is still significantly above that for upper-middle-income returns. (Other income groups were not taken into account in the Treasury study.) Those 29,800 returns in the high-income group paying tax less than

[1]Expanded income equals adjusted gross income plus items of tax "preference"—mainly the excluded 60 percent of long-term capital gains—less investment expense.

five percent of TPI still are only 11 percent of the total high-income returns.

Effective Rate of Federal Income Tax on Total Positive Income, 1983

Returns with TPI of $250,000 or more	29.2%
with tax under 5% of TPI	1.7%
with tax over 20% of TPI	30.6%
Returns with TPI $40,000-$75,000	17.7%

Source: Unpublished Statistics of Income data, Office of Tax Analysis, Dept. of the Treasury.

Scalpel Better Than Blunderbuss

Tax policy, of course, should not be comfortable with almost 30,000 high-income returns paying 1.7 percent of income even if that measure of income is suspect. A legislative urge to do something about it is understandable. A stiffer minimum tax could help ensure higher effective rates. But as developed in detail in the May 1985* Federal Tax Policy Memo *the minimum tax is a blunderbuss weapon and can have untoward economic effects.

One "strong" minimum tax measure (H.R. 2424) has been proposed by Representatives Schumer (D-NY) and Russo (D-Ill.). An analysis by Arthur Andersen & Co. indicates the Schumer-Russo minimum tax, which, among other items, would include vested benefits of pension plans in the alternative base, could result in a *more than tripling* of taxes on an upper-middle-income taxpayer even if such taxpayer received no additional disposable income. (See Washington Tax Letter, June 28, 1985, Arthur Andersen & Co.) The extensive combination of preference income items in such a minimum tax base and an unfortunate timing of events could subject many taxpayers in virtually all income groups to sudden, sharp increases in tax liabilities whether or not they indulged in tax-motivated partnerships or other sheltered investments.

Contrary to some current sentiment, the high-income tax avoidance issue could be diffused substantially without resort to the complexities of the minimum tax. The Treasury data do indicate the extent to which tax-motivated shelter investments are responsible for reducing tax liability of high-income tax returns. For those returns over $250,000 paying less than five percent of TPI in tax, 67 percent of such income was offset by current business losses—mainly partnership losses. Below-the-line itemized deductions and credits accounted for only 19 percent of offset to such income.

The President's tax reform program contains specific provisions to reduce the attractiveness of such shelters by limiting allowable interest deductions and extending at-risk limitations. There are other proposals in Congress to make the rules even tougher on tax-motivated shelters. And, in fact, these proposals already are having an impact. The sales of leveraged real estate programs through shelter-oriented partnerships are down in dollar volume this year and comprise a significantly smaller share of overall real estate investment programs.

The scalpel is preferable to the blunderbuss.

* * * * * * * *

VAT After All?

Value added taxation is alive and kicking in the U.S. Congress seems to be noticing much less of all the attention to grandiose tax reform schemes but we may be chugging down the road toward a broad-based consumption tax at the federal level which could have the same impact as a consumption-based value added tax.

Yes, the same 15 percent tax that allegedly sank Al Ullman's re-election chances, and nobody in Congress likes to talk about. But the Senate Finance Committee has reported out such a measure (S. 51) to help finance the superfund, by an 18-to-1 vote.

Another measure proposed by Senator William Roth, S. 1102, would levy a "business transfer tax" on a broader value added base with a credit for tax paid against the employer portion of social security taxes. This is receiving a good deal of attention in the Senate Finance Committee right now and will be the subject of another *Federal Tax Policy Memo*.

This memo focuses on S. 51, the "Superfund Excise Tax." Its purpose is to provide the bulk of financing for a greatly expanded superfund to clean up hazardous waste sites. The proposal would levy an 08% tax on manufacturers' sales with credit against tax due at the same rate on direct material costs, utility costs included in cost of goods sold, and costs of manufacturers' equipment. The tax would be imposed on imports and rebated on exports. Depending on the precise treatment of capital equipment, this is conceptually the same base as a tax on manufacturers' value added. Indeed, it was modeled on legislation sponsored by Senators Bentsen and Wallop (S. 957) which openly called for a value added tax. The use of the credit mechanism for narrowing the base to value added instead of the subtraction method or the invoice credit commonly utilized in Western Europe, is intended to save administrative costs—which, however, would still be significant. While the superfund tax would not be collected at the retail or wholesale level, it would be another cost of production which would have to be reflected in final sales to maintain returns to both labor and capital. In other words, the consumer could end up paying for a good part of it anyway.

Another Black Hole?

How S. 51 came about is another chapter in Government's long history of wrestling with "emerging" national problems by starting a relatively small operation that quickly becomes obsolete in relation to the perceived size of the problem. The superfund is not really an entitlement program but its financing process bears a disturbing resemblance to that of medicare and food stamps. Limited financing initially for a small pro-

gram; then suddenly the program is almost open-ended with insistent calls on increased general revenues and or broader taxes.

Basically the 1980 Act (The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 "CERCLA") set up a five-year $1.6 billion program to finance the cleanup of toxic wastes through an excise tax on petroleum and chemical feedstocks and some contribution from general revenues. The legislation expires this month, and it is proposed by everyone including the Administration to expand the superfund considerably because of the high costs of hazardous waste cleanup including, ominously, the high potential costs of damage claims as to natural resources.

Originally it was thought that the parties responsible for hazardous waste sites could be forced to repay the superfund for a large part of cleanup costs. But, aside from direct settlement agreements with EPA outside of the superfund, mostly involving ongoing business concerns, the government has collected virtually nothing to cost recoveries. In many cases, of course, owners of hazardous waste sites have gone bankrupt or cannot be clearly identified with the problem site.

Nobody seems to know what the future costs of full environmental cleanup will run. Estimates go as high as $800 billion involving up to 10,000 sites. This sort of deep-pocket potential financing need should make people very hesitant about new financing structures. Nevertheless, the Administration argues that only a $5.3 billion program over the next five years can be carried out efficiently, in part because of long lead times for planning and remediation operations. The Administration program would be financed mainly by continuing the tax on petroleum and feedstocks and adding a tax on disposal of hazardous wastes.

Those urging a broad-based tax for the superfund claim that there is hazardous waste potential, at least, in all manufacturing operations, and it is unfair to load all of the costs of an expanded program on industry segments. The Administration says it would prefer even general revenue financing to a broad-based tax which could depress business generally. The Senate Finance Committee bought the broad-based tax argument and upped the ante to a $7.5 billion program over five years.

Prospects for adoption of the Finance Committee proposal are quite uncertain. At this writing the House has not acted on it and the press of other legislation might indicate a simple one-year extension of the existing program. But the implications of any new broad-based tax at the Federal level are noteworthy to say the least. The most obvious question is whether or not the rate of tax – below 1% in the current proposal – could be held there in view of the uncertain future costs of cleanup. The record of similar Government initiatives is not encouraging in this respect. And, of course, there are considerations beyond the superfund itself. ***If we go to the trouble of establishing the mechanism for collecting a value added tax on manufactured goods at the Federal level, how easy would it be to extend the base a little, add a percentage point or two to the rate, and finance a little deficit reduction or other worthy cause. No wonder people worry about the black holes in public finance.***

56% of Public Dollars Go for Social Welfare; Would Furnish $2,519 to Each U.S. Resident

Government spent more than half a trillion dollars for social welfare programs in fiscal year 1982 (latest officially reported). This represented 56 percent of all Federal, state, and local expenditures, according to economists at the Tax Foundation.

Social welfare spending in 1982 totaled $592 billion, or $2,519 per capita, according to data recently compiled by the Social Security Administration. It was up 8 percent from the previous fiscal year, and triple what was spent on such programs as recently as 1971. The Federal government accounted for 61.9 percent of the total.

Public social welfare programs, as defined by the Social Security Administration, include social security and public employee retirement, Medicare, Medicaid and cash payments under public assistance, unemployment compensation benefits, health, veterans' services, housing, education, and others.

The largest single social welfare program—Old Age, Survivors, Disability, and Hospital Insurance (OASDHI)—has grown more rapidly than any other social welfare program. Under the OASDHI umbrella, social security taxes finance Federal programs for retirement, disability, and medical care.

Since 1970 OASDHI expenditures have more than quadrupled, amounting to $205 billion in 1982. Spending for this program now claims more than a third of all total social welfare expenditures, Tax Foundation economists say. According to the latest federal budget, OASDHI outlays in fiscal 1985 are estimated at $257 billion, 26 percent higher than in

(Continued on page 4)

"The largest single social welfare program—Old Age, Survivors, Disability, and Hospital Insurance—has grown more rapidly than any other social welfare program."

THE FRONT BURNER

"Baseline Bingo"

Congress voted the first concurrent budget resolution on August 1 and went home. The average taxpaying citizen looking for solace or at least reassurance that something had been done to curtail runaway deficits, looked in vain.

In a rare bipartisan gesture, leadership in both the House and the Senate rejected the budget compromise before the ink was dry. "Like the new Coke, it's just not the real thing," commented Rep. Hank Brown. "It's better than nothing," was the kindest remark Senate Budget Committee Chairman Pete Domenici could manage.

Small wonder. Much of the economic data in the resolution conference report was indecipherable. What could be deciphered was viewed as totally lacking in credibility by politicians and pundits alike.

Take one instance of the hundreds of numbers for which projections were given: the size of the Federal deficit in fiscal 1988. On August 1 the House and Senate resolution predicted a drop to some $231 billion (FY85) to $102.9 billion (FY88). A fortnight later, the Congressional Budget Office (CBO) said the 1988 deficit would be $143 billion. By month's end, the Administration, in its mid-session review of the 1986 budget, foresaw a 1988 deficit "at a current services level" of $295.6 billion. Even in Washington, a spread of $113 billion is a lot of money. Why the discrepancy?

There they go again, juggling economic assumptions and switching baselines.

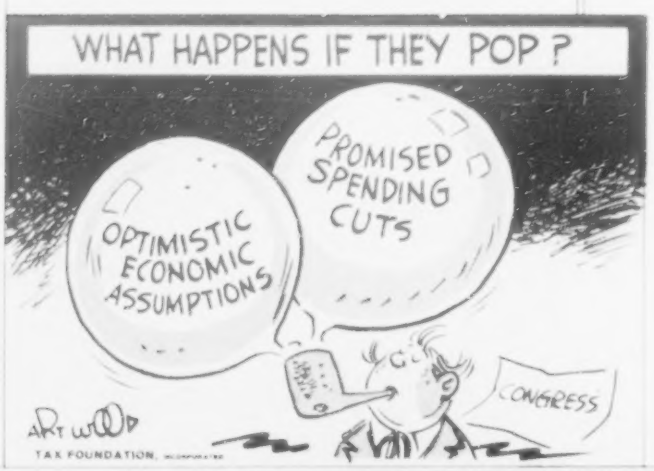
- Congress based the concurrent resolution on Office of Management and Budget (OMB) assumptions published last February.
- CBO used updated economic assumptions.
- The White House ignored Congressional reductions in nondefense spending but did count defense cuts that were reflected in the August 1 concurrent resolution in its projection of the FY88 deficit. In other words, what the Administration is calling "current services" projections were really apples and oranges, economically speaking.

OMB took the Administration's February spending cut proposals for nondefense programs, combined these with Congress's defense reductions, threw in a few revisions of its own earlier economic assumptions, and came up with a budget deficit of $99.8 billion for FY88. This rosy scenario will prevail only if Congress votes the Administration's original spending cuts and if the White House's somewhat optimistic economic assumptions hold true. Two big "ifs."

On the bad news side, using a low growth economic scenario that excludes a recession in 1987, CBO came up with a $372 billion deficit for FY88.

In short, you pays your money and you takes your choice. More accurately, the tax writers and public spenders make their choices and then take our money.

"The tax writers and public spenders make their choices and then take our money."



Social Welfare Expenditures under Public Programs by Source of Funds and Type

Selected Fiscal Years 1960-1982

Item[a]	1960	1970	1980	1982[b]
	Amount (millions)			
Total expenditures	$52,792	$143,836	$492,534	$592,521
Social insurance	19,907	43,691	229,784	288,743
OASDHI	11,642	30,855	142,110	184,568
Public employee retirement	3,278	8,620	34,480	40,091
Unemployment insurance	836	2,825	10,326	23,106
Workmen's compensation	1,998	1,391	12,427	16,911
Public aid	4,391	16,466	41,991	46,746
Public welfare	3,243	11,153	44,888	53,100
Health and medical programs	1,864	4,467	27,667	32,000
Veterans' programs	4,474	9,538	18,402	24,500
Education	17,630	36,646	123,885	153,674
Elementary and secondary	10,220	24,200	67,361	87,417
Higher	4,001	9,465	36,436	49,654
Vocational and adult	406	1,314	4,000	5,000
Housing	183	1,117	3,110	3,114
Other social services	1,253	3,430	7,500	11,500
From federal funds[c]	19,907	57,000	180,000	180,000
Social insurance	11,642	30,855	142,110	184,568
Public aid	1,243	8,000	20,000	30,000
Health and medical programs	1,864	4,467	27,667	32,000
Veterans' programs	4,474	9,538	18,402	24,500
Education	1,253	3,430	7,500	11,500
Housing	183	1,117	3,110	3,114
Other social services	248	593	1,211	1,386
From state and local funds[c]	32,885	86,836	312,534	412,521
Social insurance	8,265	12,836	87,674	104,175
Public aid	3,148	8,466	21,991	16,746
Health and medical programs	0	0	0	0
Education	16,377	33,216	116,385	142,174
Housing	0	0	0	0
Other social services	1,095	2,837	6,289	10,114
	Percentage distribution			
Total social welfare expenditures	100.0	100.0	100.0	100.0
Federal	37.7	39.6	36.6	30.4
State and local	62.3	60.4	63.4	69.6
Public social welfare expenditures as a percent of GNP	10.3	14.1	19.1	20.9

Footnotes:
[a] Includes some expenditures not shown separately.
[b] Preliminary.
[c] Includes expenditures not shown separately.

Source: Social Security Administration, Office of Research and Statistics.

(SOCIAL WELFARE, from page 3)

1982—the latest year covered in the SSA tabulations.)

Traditionally, the largest category of the social welfare program has been public education. It was not until 1976 that education took second place—to OASDHI—among public social welfare programs. At $134 billion in fiscal 1982, education outlays amounted to 23 percent of social welfare spending.

Social welfare spending grew far more rapidly than gross national product between 1950 and 1976. During the latest six years reported, however, GNP and welfare spending increased at the same rate, by 79 percent from 1976 to 1982, in current dollars. Adjusted for inflation, the increase amounted to an average annual rate of 2 percent.

For further details on social welfare spending, see the accompanying table.

(U.S. DEBT, from page 1)

Interest on the debt now amounts to about 38 percent of yearly individual income tax collections. Five years down the road, the Congressional Budget Office (CBO) foresees interest costs of $210 billion by 1990. They will claim more than 40 percent of individual income tax receipts under current law. In fact, these projections are based on somewhat optimistic economic assumptions. They assume that the spending reductions adopted by Congress in its concurrent budget resolution on August 1 will actually come to pass.

Tax Foundation analysts point out that increases in the statutory debt limit are typically larger than the expected deficit in a given year's financial transactions. For fiscal 1986, for example, the Treasury requested a $255 billion increase in the debt ceiling, even though the estimated deficit in fiscal 1986 is $178 billion. This is so because the debt ceiling also allows for increases in debt sold to trust funds whose surpluses must (by law) be invested in public debt securities. The interest received on these government accounts serves to reduce the gross costs of interest on the Federal debt to the net interest figure reported in the budget.

The table on page 1 provides additional details.

TAX FOUNDATION, INCORPORATED
One Thomas Circle, N.W., Suite 500, Washington, D.C. 20005

Non-Profit Org.
U.S. Postage
PAID
Washington, D.C.
Permit No. 1287